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# The Idle Speculator™

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## An(other) Iowa Surprise

As they've done before, voters in the Iowa caucuses got the U.S. Presidential race off to an interesting start, handing victories to surging upstarts Senator Obama and Governor Huckabee. Turnout was very high, though it should be kept in mind that the total was under 500,000 and the state's influence in the general election is minimal. Still, these are important and instructive results. First, they show that charisma matters a great deal. Second, as in 1992, we expect this race to focus on the economy, especially taxes, globalization, and growth, and on those issues, we find Governor Huckabee to be the most compelling candidate. From an economic and investment standpoint, his performance in Iowa is encouraging to us.

### Style Still Counts

Our assessment continues to be that Obama and Huckabee's personal styles are tremendous assets that give them broad voter appeal, and our view has been reinforced by their statements in the wake of yesterday's victories (as contrasted with Howard Dean's post-caucus speech in 2004, for example). History and personal experience clearly demonstrate the immense value of charisma to those seeking elected office, or anything else for that matter. This morning, Huckabee claimed in an interview on Bloomberg TV that the caucus outcomes reflected a desire for "a change in tone and attitude". Perhaps, but our more conservative assessment is simply that voters appreciate the tones and attitudes embodied by these two candidates. Successful leadership rests heavily on such intangibles.

### Substance Will Matter

As in the past, the Iowa outcomes do not guarantee anything to either candidate. Other strategic realities will definitely have an impact in subsequent primaries. For example, Romney could fare well in New Hampshire thanks to his tenure as Massachusetts governor (although Senator McCain is looking increasingly like a Huckabee-friendly spoiler there). On the Democratic side, Obama still trails Senator Clinton slightly in neck and neck polling in NH and South Carolina. And although prediction markets still give Clinton and Giuliani the highest probabilities of nomination<sup>1</sup>, we expect intangibles like charisma to continue providing support to the two Iowa winners. With that in mind, it's important to consider the policy substance that accompanies their personal styles.

### Obama's Challenge

The Economist recently opined<sup>2</sup> on the insufficient substance in Senator Obama's platform at the moment. It's our view that on economics, Senator Obama's advisors have

<sup>1</sup> [http://www.realclearpolitics.com/epolls/2008/president/democratic\\_primaries.html](http://www.realclearpolitics.com/epolls/2008/president/democratic_primaries.html)

some work to do. Specifically, they need to realize that, while they and their candidate speak of taxes as a domestic issue involving competition between taxpayers in different brackets, that view simply doesn't hold up in today's world, unlike the 1930s and 1940s. Far more important is the intensifying global contest for financial capital and investment, which is fundamentally a competition over comparative national burdens on capital.

Despite Obama's strong selling points, if he wins his party's nomination, we think he will have a far tougher time in a general election if he doesn't get the tax message right. To be fair, this shortcoming is at work in all of the Democrats' platforms.

### Huckabee Formidable, “Populism” Notwithstanding

On tax issues, we think that the GOP field is the stronger one overall, and we think that Governor Huckabee is the most formidable candidate among them, despite the “populist” label being attached to his trade and executive compensation positions by the conservative establishment and political pundits. It's a label we take issue with for several reasons.

First, on trade, as captured in his pithy “NAFTA-CAFTA-hafta” tag line, he can only be considered a populist if one assumes that international trade is perfectly free of government distortions on both sides, and that externalities such as pollution, property rights, and product safety are not important public concerns.

On executive compensation, Huckabee has not argued for tried-and-found-wanting interventions like compensation caps. Rather, he encourages a higher level of conduct by directors and investors, who have a dismaying tendency to lavishly reward executive failure. As a defender of the private sector, Huckabee is simply asking it to live up to its billing as a more efficient allocator of capital than governments. And in our view, anyone who argues that the prevailing institutional arrangements governing executive compensation are efficient is wearing blinders.

Huckabee's message of individual economic opportunity, as captured in his “great idea sketched on a kitchen napkin” line and his professed desire to maximize individuals' opportunities to create wealth are hardly populist or anti-growth. These ideals are quintessentially American, and should resonate very well with the electorate.

### Remembering “John Humble”

Should critics insist on sticking with the “populist” label, we would remind them that this country has an intensely anti-elitist conservative streak that precedes its founding. It was ably captured in the sarcastic anti-Federalist editorial penned under the pseudonym “John Humble” in 1787:

Now we, the low born, that is, all the people of the United States except 600 or thereabouts...declare that without any equivocation or mental reservation whatever we will support and maintain [this constitution]...after the manner and custom of all other slaves in foreign countries, namely by the sweat and toil of our body...And...should any one...employed on duty in collecting taxes, strike off

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2 [http://www.economist.com/displaystory.cfm?story\\_id=10286391](http://www.economist.com/displaystory.cfm?story_id=10286391)

the arm...of one of our fellow slaves, we will conceive our case remarkably fortunate if he leaves the other arm on...we shall henceforth and forever, leave all power, authority, and dominion over our persons and properties in the hands of the well born, who were designed by Providence to govern...and we shall in the future be perfectly contented if our tongues be left us to lick the feet of our well born masters. Done on behalf of three millions of low born American slaves. John Humble, Secretary.

Mike Huckabee is a Baptist minister from Arkansas. That's a different world from, say, the ones inhabited by a Presbyterian trust beneficiary in South Carolina, and it's far closer to the one inhabited by most Americans. If advocating for greater opportunities to those who would like to have a larger stake in America's wealth through their own efforts is now called populism, so be it; such notions tend to be popular with the American electorate, after all.

### Populism Under a President Huckabee?

Most important, if Huckabee were elected President, and if he could fulfill on his promise to remove taxes on productive investment and activity altogether, the economic pressures that have supported populism's currency in this election (and in the domestic political discourse of the last 40+ years) would be alleviated to a great extent by higher rates of domestic investment and output, wider employment of marginal financial and social resources, and broadly higher real incomes and wealth. The risk, as his opponents will point out, is that radical tax overhaul could threaten the federal government's solvency and its ability to fulfill future obligations. *But this risk is at play no matter what happens to the federal tax code*--if private economic growth is insufficient to support future public obligations, the end result is the same. As we have pointed out before, the willingness and capacity to take prudent risks is crucially important to any society's well-being.<sup>3</sup> And Huckabee's tax proposals clearly demonstrate his appetite for prudent risk taking.

Please note that our firm has not endorsed a candidate, nor have we donated to any campaigns. But Governor Huckabee has certainly stirred our interest. We like his philosophy, we like his platform, and we like his chances in a general election.

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<sup>3</sup> "Gardner versus Gekko" <http://www.symmetrycapital.net/idlespeculation/2006121502.pdf>. See also Reuven Brenner's [Betting on Ideas](#).